

**Program Proposed Budget**

The following table summarizes the executive budget proposal for this program by year, type of expenditure, and source of funding.

Program Proposed Budget								
Budget Item	Base Budget Fiscal 2004	PL Base Adjustment Fiscal 2006	New Proposals Fiscal 2006	Total Exec. Budget Fiscal 2006	PL Base Adjustment Fiscal 2007	New Proposals Fiscal 2007	Total Exec. Budget Fiscal 2007	Total Exec. Budget Fiscal 06-07
FTE	109.71	(0.60)	6.00	115.11	(0.65)	8.00	117.06	117.06
Personal Services	5,028,451	345,100	220,408	5,593,959	344,837	278,992	5,652,280	11,246,239
Operating Expenses	2,202,460	(4,619)	48,528	2,246,369	(4,283)	31,680	2,229,857	4,476,226
Equipment	8,759	0	0	8,759	0	0	8,759	17,518
Grants	291,663	0	0	291,663	0	0	291,663	583,326
Benefits & Claims	0	0	0	0	0	0	0	0
Transfers	0	0	0	0	0	0	0	0
<b>Total Costs</b>	<b>\$7,531,333</b>	<b>\$340,481</b>	<b>\$268,936</b>	<b>\$8,140,750</b>	<b>\$340,554</b>	<b>\$310,672</b>	<b>\$8,182,559</b>	<b>\$16,323,309</b>
General Fund	1,910,520	158,728	56,551	2,125,799	158,420	(170,464)	1,898,476	4,024,275
State/Other Special	255,057	942	77,917	333,916	927	325,800	581,784	915,700
Federal Special	5,365,756	180,811	134,468	5,681,035	181,207	155,336	5,702,299	11,383,334
<b>Total Funds</b>	<b>\$7,531,333</b>	<b>\$340,481</b>	<b>\$268,936</b>	<b>\$8,140,750</b>	<b>\$340,554</b>	<b>\$310,672</b>	<b>\$8,182,559</b>	<b>\$16,323,309</b>

**Program Description**

The Quality Assurance Division provides services that:

- 1) Protect the safety of clients utilizing Montana's health care, day care, and residential providers through licensure of 2,234 facilities, including 397 facilities that are certified by the division for Medicare and Medicaid participation;
- 2) Detect and investigate abusive or fraudulent practices affecting the Medicaid, TANF, and Food Stamp programs, and initiate recovery efforts;
- 3) Reduce Medicaid costs by identifying other insurers or parties responsible for paying client medical expenses;
- 4) Provide both internal and external independent audits for DPHHS programs;
- 5) Provide independent fair hearings for clients and providers participating in DPHHS programs;
- 6) Monitor and evaluate health maintenance organizations for quality assurance and network adequacy;
- 7) Maintain the Certified Nurse Aide Registry and approve and monitor Nurse Aide Training programs;
- 8) Operate the Certificate of Need (CON) Program; and
- 9) Operate the internal Health Insurance and Privacy Accountability Act (HIPAA) function for DPHHS.

Statutory authority: 42 U.S.C. 1818 and 42 U.S.C. 1919; 45 U.S.C.; Title 50, Chapter 5, parts 1 and 2; Title 50, Chapter 5, part 11; Title 52, Chapter 2, part 7; and Title 53, Chapter 2, section 501, MCA; CFR 21, CFR 49, CFR 10; P.L. 102-359 (10-27-92).

**Program Highlights**

Quality Assurance Division Major Budget Highlights
<ul style="list-style-type: none"> <li>• Implementation of the federally required Medicaid Payment Error Rate Program (PERM) results in: <ul style="list-style-type: none"> <li>• Annual budget increases of about \$600,000, including funding for 8.00 new FTE</li> <li>• Anticipated reductions in Medicaid service costs in other divisions recorded in Quality Assurance Division budget request but those reductions would be distributed to other divisions in the 2007 biennium</li> </ul> </li> <li>• General fund budget request declines compared to base budget</li> </ul>

funding due to changes in cost allocation that increase federal and private fund support in lieu of general fund
<b>Major LFD Issue</b>
<ul style="list-style-type: none"> <li>Impact of the MMA (Medicare Modernization Act) is unknown as of December 2004, but Quality Assurance Division workload increase to process eligibility appeals and grievances could begin as early as July 2005, and is discussed more fully in DPHHS overview</li> </ul>

### Program Narrative

The Quality Assurance Division budget request grows about \$600,000 annually over FY 2004 base budget expenditures, almost all in the personal services category. The growth in FY 2006 is due to primarily to annualization of FY 2005 pay plan increases, and in FY 2007 to a new proposal for increased personal services (8.00 new FTE) and operating funding to implement the Medical Payment Error Rate Program (PERM).

PERM is a federally required program that must be implemented by states beginning October 1, 2005. PERM requires states to evaluate a sample of Medicaid and Children's Health Insurance Program (CHIP) claims with respect to two specific criteria: eligibility for services; and the medical necessity for services. The executive budget request anticipates that there will be savings in excess of costs due to the reviews.

The Quality Assurance Division FY 2007 budget request includes the anticipated benefit cost savings due to PERM, resulting in a net reduction in general fund compared to the FY 2004 base budget funding. The cost savings will accrue in other division budgets, but have been consolidated with the funding to support the PERM in Quality Assurance Division. New proposal DP190 contains a more detailed discussion of PERM, including how cost savings were calculated.

### LFD COMMENT

The Medicare Modernization Act (MMA) may impact Quality Assurance Division because the act requires states to carry out appeals related to eligibility determination for low-income copay and deductibles for persons eligible for the Medicare Part D prescription drug benefit. The executive budget request, including the Quality Assurance Division, does not address the impacts of the MMA because federal rules implementing the act are not final and may not be final before the 2005 Legislature adjourns. This issue is discussed in more detail in the DPHHS overview since the MMA affects several divisions.

### Biennial Comparison

The Quality Assurance Division 2007 biennium budget request is 6 percent higher in total funds than the 2005 biennium expenditures and appropriation, and includes funding for 8.00 new FTE (Figure 36). General fund declines about 3 percent, state special revenue increases 71 percent, and federal funds increase 6.1 percent, or about \$920,000 total funds. All cost categories except personal services are lower in the 2007 biennium budget request compared to the 2005 biennium budget. About 67 percent of the change is attributable to one proposal - PERM. While PERM activities will increase personal services costs, increased accuracy and collection of over payments is expected to result in benefit savings and therefore reduced general fund costs in the 2007 biennium.

Figure 36  
2005 Biennium Compared to 2007 Biennium  
Quality Assurance Division

Budget Item/Fund	2005 Biennium	2007 Biennium	Percent of Total	Change	Percent Incr/Decr
FTE	110	117		7	6.7%
Personal Services	\$10,169,864	\$11,246,239	68.9%	\$1,076,375	10.6%
Operating	4,561,165	4,476,226	27.4%	-84,939	-1.9%
Equipment	26,257	17,518	0.1%	-8,739	0.0%
Grants	<u>645,763</u>	<u>583,326</u>	<u>3.6%</u>	<u>-62,437</u>	<u>-9.7%</u>
Total Costs	<u>\$15,403,049</u>	<u>\$16,323,309</u>	<u>100.0%</u>	<u>\$920,260</u>	<u>6.0%</u>
General Fund	\$4,142,006	\$4,024,275	24.7%	-\$117,731	-2.8%
State Special	535,548.00	915,700.00	5.6%	380,152.00	71.0%
Federal Funds	<u>10,725,495</u>	<u>11,383,334</u>	<u>69.7%</u>	<u>657,839</u>	<u>6.1%</u>
Total Funds	<u>\$15,403,049</u>	<u>\$16,323,309</u>	<u>100.0%</u>	<u>\$920,260</u>	<u>6.0%</u>

### Funding

The following table shows program funding, by source, for the base year and for the 2007 biennium as recommended by the Governor.

Program Funding Table Quality Assurance Division						
Program Funding	Base FY 2004	% of Base FY 2004	Budget FY 2006	% of Budget FY 2006	Budget FY 2007	% of Budget FY 2007
01100 General Fund	\$ 1,910,520	25.4%	\$ 2,125,799	26.1%	\$ 1,898,476	23.2%
02034 Earmarked Alcohol Funds	52,727	0.7%	52,244	0.6%	52,129	0.6%
02142 Medicaid Third Party Revenue	-	-	77,917	1.0%	325,800	4.0%
02380 02 Indirect Activity Prog 08	30,575	0.4%	32,000	0.4%	32,100	0.4%
02474 Lien & Estate Collections	171,755	2.3%	171,755	2.1%	171,755	2.1%
03096 Discretionary Child Care	433,226	5.8%	444,238	5.5%	444,238	5.4%
03251 Child Care Admin	136,319	1.8%	139,512	1.7%	139,512	1.7%
03303 Title 18 Clia	75,880	1.0%	63,384	0.8%	63,238	0.8%
03335 Fda Mammography Inspections	33,501	0.4%	33,501	0.4%	33,501	0.4%
03530 6901-Foster Care 93.658	79,891	1.1%	81,782	1.0%	81,687	1.0%
03580 6901-93.778 - Med Adm 50%	921,904	12.2%	1,073,463	13.2%	1,093,292	13.4%
03597 03 Indirect Activity Prog 08	1,300,804	17.3%	1,353,914	16.6%	1,355,081	16.6%
03934 Title 19	489,105	6.5%	688,385	8.5%	688,532	8.4%
03935 Title 18	1,244,254	16.5%	1,142,545	14.0%	1,142,951	14.0%
03948 T-19 Obra Nurse Aid	28,460	0.4%	37,927	0.5%	37,913	0.5%
03960 Rural Hospital Flexibility Prog	<u>622,412</u>	<u>8.3%</u>	<u>622,384</u>	<u>7.6%</u>	<u>622,354</u>	<u>7.6%</u>
Grand Total	<u>\$ 7,531,333</u>	<u>100.0%</u>	<u>\$ 8,140,750</u>	<u>100.0%</u>	<u>\$ 8,182,559</u>	<u>100.0%</u>

Quality Assurance Division is funded primarily from federal funds (71 percent of the base budget funding and 70 percent of the 2007 biennium request). General fund supports about a fourth of division expenditures and state special revenue supports about 4 percent in FY 2004 and FY 2006, rising slightly to 7 percent in FY 2007 due to implementation of PERM.

The largest source of federal funds is comprised of federal reimbursement for overhead costs that are allocated among federal funding sources depending on staff time spent on each federal program. Federal indirect cost recovery accounts for about 17 percent of total program funding. Medicare funding supports 18 percent of base budget costs, declining slightly to 15 percent each year of the 2007 biennium. Federal Medicaid matching funds support 13 percent of FY 2004 costs rising to 14 percent in FY 2007.

General fund supports the full cost of radiological equipment testing, the state match for Medicaid and Title IV-E (foster care) eligible costs, a portion of child care licensure, and a portion of division administration.

State special revenue includes alcohol taxes allocated to DPHHS, lien and estate recoveries for Medicaid services, and indirect funds. Alcohol taxes fund staff and contracted services for chemical dependency program licensure. Lien and estate funds pay for contracted services to pursue recoveries for the cost of Medicaid funded nursing home services. The contractor is paid about 20 percent of collections.

There are nine separate federal funding sources in the Quality Assurance Division. Some federal sources support more than one function. For instance, Medicaid funds support: 1) third party (insurance and private pay) recovery; 2) the surveillance, utilization, and review unit; 3) the nurse aide registry for nursing homes; and 4) the Department of Justice fraud investigation contract. Medicaid and Medicare funds support certification of services such as nursing home and personal care services. Medicare CLIA (clinical laboratory improvement amendments) pays for review of some laboratories in order to qualify for federal funding. The rural hospital flexibility grant supports grants and other activities for local hospitals to maintain critical access hospital status. Childcare funding supports licensure of childcare facilities. Title IV-E pays the federal share of costs of licensing community residential facilities. Mammography funds pay for inspections of mammography equipment. Federal indirect funding represents the federal share of allocated administrative costs, such as those for fair hearings and administrative costs.

### Program Reorganization

The DPHHS internal HIPAA function was moved to Quality Assurance Division from the Health Resources Division in FY 2004. The reorganization involved the transfer of 1.00 FTE.

### Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget proposed by the executive. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

Present Law Adjustments									
-----Fiscal 2006-----					-----Fiscal 2007-----				
FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
Personal Services				602,440					604,766
Vacancy Savings				(225,232)					(225,325)
Inflation/Deflation				(5,905)					(5,690)
Fixed Costs				1,286					1,407
<b>Total Statewide Present Law Adjustments</b>				\$372,589					\$375,158
DP 9999 - Statewide FTE Reduction									
(0.60)	(32,108)	0	0	(32,108)	(0.65)	(34,604)	0	0	(34,604)
<b>Total Other Present Law Adjustments</b>									
<b>(0.60)</b>	<b>(\$32,108)</b>	<b>\$0</b>	<b>\$0</b>	<b>(\$32,108)</b>	<b>(0.65)</b>	<b>(\$34,604)</b>	<b>\$0</b>	<b>\$0</b>	<b>(\$34,604)</b>
Grand Total All Present Law Adjustments				\$340,481					\$340,554

DP 9999 - Statewide FTE Reduction - This decision package reduces the personal services general fund budget equal to the across-the-board personal services reduction that was made for the 2005 biennium by the 2003 Legislature.

**New Proposals**

New Proposals										
-----Fiscal 2006-----						-----Fiscal 2007-----				
Program	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 190 - Medicaid Payment Error Rate Measurement										
08	6.00	56,551	77,917	134,468	268,936	8.00	(170,464)	325,800	155,336	310,672
Total	6.00	\$56,551	\$77,917	\$134,468	\$268,936	8.00	(\$170,464)	\$325,800	\$155,336	\$310,672

**DP 190 - Medicaid Payment Error Rate Measurement** - This request funds implementation of the new Medicaid Payment Error Rate Program (PERM) and establishes 8.00 FTE to perform retrospective reviews of Medicaid eligibility and medical necessity for services. This program is anticipated to be self-supporting through the savings generated by the reviews.

In 2002, Congress passed the Improper Payments Information Act. Beginning October 1, 2005, Centers for Medicare and Medicaid Services (CMS) will implement PERM, requiring every state to estimate improper payments in Medicaid and the Children's Health Insurance Program (CHIP). Each state must review annually a sample of Medicaid and CHIP payments, focusing on eligibility and medical necessity for services.

The Program Compliance Bureau of the Quality Assurance Division will administer PERM because the bureau manages similar programs that review Medicaid eligibility and provider payments, and recover payment for Medicaid services from private sources including insurance (third party liability). However, the Quality Assurance Division estimates the bureau will require an additional 8.00 FTE to adequately process the anticipated volume of reviews.

If during the review a billing error is found and it is determined that charges have been over paid, the overpayment will be collected from the client or the service provider. (PERM does not provide for correction of under payments.) The collections will be returned to the original payor, which will reduce the general fund expenditures in the Medicaid program. If the error is determined to be an eligibility issue resulting from an agency error, no collection will be made. However, if the error is an eligibility issue resulting from a client error, Quality Assurance Division will try to collect.

DPHHS is projecting a recovery rate of 0.15 percent of total Medicaid expenditures. Total Medicaid expenditures estimated in the executive request are \$715 million for FY 2006 and \$751 million for FY 2007. The executive included cost savings due to PERM \$0.3 million for FY 2006 and \$1 million for FY 2007. FY 2006 savings are lower than FY 2007 savings, because the program will not begin until October 1, 2005 and the executive budget estimated a six-month lag in collections.

General fund savings for other divisions due to PERM cost recoveries are included in this Quality Assurance Division decision package. If this request is approved, the general fund reduction will be transferred to the Medicaid benefit program realizing the cost recovery.

**LFD  
COMMENT**

Other states have implemented pilot programs for this same purpose. Quality Assurance Division states:

"While these states have seen recoveries, it is hard to compare [other states' experience] to anticipated recoveries with Montana, and its eligibility determination and medical cost reporting processes. Montana has traditionally been held as a standard for other states to follow in our processes. Thus it is assumed, due to Montana's excellent history in processes, that Montana will not realize the same recovery rates as other states."

Legislative staff has requested information from other states that piloted PERM programs to determine whether the legislature may wish to evaluate and select another level of anticipated savings.